Financial Statements of

Saskatchewan Lotteries Trust Fund For Sport, Culture and Recreation

Year ended March 31, 2015

VIRTUS GROUP

Chartered Accountants & Business Advisors LLP

INDEPENDENT AUDITORS' REPORT

To: Members of the Legislative Assembly
Province of Saskatchewan

We have audited the accompanying financial statements of **Saskatchewan Lotteries Trust Fund for Sport, Culture and Recreation,** which comprise the statement of financial position as at March 31, 2015, the statements of operations, remeasurement gains, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Saskatchewan Lotteries Trust Fund for Sport, Culture and Recreation** as at March 31, 2015, and its results of operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

May 21, 2015
Regina, Saskatchewan, Canada

Virtus Group LLP
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Saskatchewan Lotteries Trust Fund For Sport, Culture and Recreation

Statement of Financial Position

March 31, 2015 with comparative figures for 2014

	2015	2014
Financial assets:		
Cash	$ 14,773,044	$ 13,741,073
Accounts receivable	1,171	31,842
Interest receivable	727,111	1,204,765
Prepayment to Province of Saskatchewan - General Revenue Fund	20,485	-
Due from Western Canada Lottery - Saskatchewan Division Inc.	10,604,232	8,839,764
Investments (note 3)	77,230,197	81,315,164
	103,356,240	105,132,608
Liabilities:		
Accounts payable	212,307	90,471
Due to Province of Saskatchewan - General Revenue Fund	-	26,693
Grants payable (note 4)	80,107,340	80,924,138
	80,319,647	81,041,302
Net financial assets	23,036,593	24,091,306
Net financial assets is comprised of:		
Restricted trust fund balances (Schedule 1)	20,839,392	21,741,081
Accumulated remeasurement gains	2,197,201	2,350,225
	$ 23,036,593	$ 24,091,306

See accompanying notes to financial statements.

On behalf of the Board:

Brenda L Bathgate Director

Director

Saskatchewan Lotteries Trust Fund For Sport, Culture and Recreation

Statement of Operations

Year ended March 31, 2015 with comparative figures for 2014

	Original Budget 2015 (note 8)	2015	2014
Transfer of net lottery profits from Western Canada Lottery - Saskatchewan Division Inc. (Schedule 2)	$ 58,292,250	$ 57,202,846	$ 61,837,224
Less contractual expenses: (note 5)			
Federal Government expenses	2,180,000	1,995,486	1,984,106
Former distributors	1,443,920	1,441,451	1,442,320
Province of Saskatchewan - General Revenue Fund	7,500,000	6,917,015	7,540,442
Saskatchewan Association of Agricultural Societies and Exhibition Associations	310,000	310,000	310,000
	11,433,920	10,663,952	11,276,868
Lottery profits after contractual expenses	46,858,330	46,538,894	50,560,356
Investment income	1,802,500	2,891,520	2,212,118
Less administration expenses (Schedule 3)	820,990	823,942	794,634
Funds available to provide grants	47,839,840	48,606,472	51,977,840
Less grants (Schedule 1)	51,953,000	49,508,161	53,946,812
(Decrease) in restricted trust fund balances	(4,113,160)	(901,689)	(1,968,972)
Restricted trust fund balances, beginning of year	21,741,081	21,741,081	23,710,053
Restricted trust fund balances, end of year	$ 17,627,921	$ 20,839,392	$ 21,741,081

See accompanying notes to financial statements.

Saskatchewan Lotteries Trust Fund For Sport, Culture and Recreation

Statement of Remeasurement Gains

Year ended March 31, 2015 with comparative figures for 2014

	2015	2014
Accumulated remeasurement gains at beginning of year	$ 2,350,225	$ 1,174,584
Unrealized gain(loss) adjustments attributable to:		
Bank shares	68,111	629,571
Pooled funds	(221,135)	546,070
Remeasurement gain adjustments for the year	(153,024)	1,175,641
Accumulated remeasurement gains at end of year	$ 2,197,201	$ 2,350,225

Statement of Cash Flows

Year ended March 31, 2015 with comparative figures for 2014

	2015	2014
Cash provided by (used in):		
Operating activities:		
(Decrease) in restricted trust fund balances	$ (901,689)	$ (1,968,972)
Realized (gain) on sale of investments	(894,218)	-
Items not affected by cash:		
Unrealized (loss)/gain on investments	741,194	(5,740)
Net change in non-cash working capital items:		
Accounts receivable	30,671	(14,648)
Interest receivable	477,654	(92,836)
Prepayment to Province of Saskatchewan - General Revenue Fund	(20,485)	-
Due from Western Canada Lottery - Saskatchewan Division Inc.	(1,764,468)	1,789,202
Accounts payable	121,836	14,411
Due to Province of Saskatchewan - General Revenue Fund	(26,693)	(254,235)
Grants payable	(816,798)	2,364,620
	(3,052,996)	1,831,802
Investing activities:		
Purchase of investments	(26,467,187)	(913,628)
Proceeds from disposal of investments	30,552,154	5,287,843
	4,084,967	4,374,215
Increase in cash during the year	1,031,971	6,206,017
Cash, beginning of year	13,741,073	7,535,056
Cash, end of year	$ 14,773,044	$ 13,741,073

See accompanying notes to financial statements.

Saskatchewan Lotteries Trust Fund For Sport, Culture and Recreation

1. Nature of operations:

The Saskatchewan Lotteries Trust Fund for Sport, Culture and Recreation (the Trust) was established in 1974 and is continued pursuant to the *Interprovincial Lotteries Act 1984* and a Distribution Agreement between the Minister of Parks, Culture and Sport for the Province of Saskatchewan and Sask Sport Inc. Under the terms of the agreement, Sask Sport Inc. has been designated as the provincial marketing organization to sell Western Canada Lottery Corporation lottery tickets in Saskatchewan. Sask Sport Inc. has established the Western Canada Lottery - Saskatchewan Division Inc. to market, and Sask Sport Distributors Inc. to distribute these tickets on its behalf. The current agreement expires March 31, 2019.

The agreement requires that the net lottery profits (detailed in Schedule 2) are transferred to the Trust and further that, after the payments described in note 5, and the expenses of operating the Trust have been paid, all remaining funds be allocated to sport, culture and recreation. The profits (allocated 50% to sport, 35% to culture and 15% to recreation) are restricted for granting to eligible organizations designated by the Minister of Parks, Culture and Sport for the Province of Saskatchewan. The Trust contributes, from each of these three sections, funds to the Saskatchewan Lotteries Community Grant Program in the same percentage as above; and to the Saskatchewan Lotteries Community Development Fund as follows: 40% by sport, 30% by culture and 30% by recreation.

The lottery agreement also requires Sask Sport Inc., as designated provincial marketing organization for lottery tickets, to pay out of the Trust directed payments as described in note 5.

2. Significant accounting policies:

The Trust follows generally accepted accounting principles as recommended by the Public Sector Accounting Board of the CPA Canada (PSAB). Public Sector Accounting Standards (PSAS) classify the Trust as an "other government organization".

Basis of accounting and use of estimates:

The preparation of financial statements in accordance with the PSAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates. Differences are reflected in current revenues and expenses when identified.

Investments:

All equity and pooled fund investments are recorded at fair market value with unrealized gains and losses reported on the Statement of Remeasurement Gains. When such gains and losses become realized they will be reported in the statement of operations. Fixed income investments are recorded at amortized cost.

2. Significant accounting policies (continued):

Grant expense and contractual expenses:

Grants to eligible organizations are recorded when approved by the Trust Committee or the Sask Sport Inc. Board of Directors and all eligibility criteria are met. Contractual expenses are recognized by the Trust as required by the lottery agreement.

Revenue recognition:

Lottery profits are recognized by the Trust in the period they are earned by the Western Canada Lottery – Saskatchewan Division Inc. Investment income is recognized in the period earned. Premiums and discounts on bond investments are amortized to income using the effective interest method.

3. Investments:

Investments at March 31 consist of:

	2015		2014	
	Carrying Value	Market Value	Carrying Value	Market Value
Government Bond	$ -	$ -	$ 3,499,999	$ 3,974,630
Guaranteed Investment Certificates	63,855,912	64,584,961	66,581,032	67,323,436
Bank Shares	4,660,773	4,660,773	4,413,564	4,413,564
Connor Clark & Lunn Pooled Funds	8,713,512	8,713,512	6,820,569	6,820,569
	$ 77,230,197	$ 77,959,246	$ 81,315,164	$ 82,532,199

Guaranteed investment certificates mature between July 6, 2015 and June 4, 2019 (2014 – July 14, 2014 and January 30, 2017) and have effective interest rates ranging from 1.45% to 2.625% (2014 – 1.82% to 3.15%). Connor Clark and Lunn Pooled Funds consist of managed fixed income and equity investments in pooled funds. As such they have no specified rate of return or maturity. The bank shares have no specified rate of return or maturity. Market values are the values quoted by the applicable market on March 31.

4. Grants payable:

	2015	2014
Community Grant Programs	$ 19,628,182	$ 19,900,814
Culture	19,307,619	19,691,266
Recreation	6,951,598	7,069,750
Sport	34,219,941	34,262,308
	$ 80,107,340	$ 80,924,138

5. **Contractual expenses:**

Under the terms of an Agreement for the Distribution of Funds with the Minister of Parks, Culture and Sport for the Province of Saskatchewan, the Trust is required to make the following payments to:

- the Federal Government which, under an agreement dated September 23, 1979 with the Interprovincial Lottery Corporation, withdrew from the lottery field in exchange for $24,000,000 annually, in 1979 dollars. Saskatchewan's share of this payment, for the year ended March 31, 2015, was $1,995,486 (2014 - $1,984,106).
- Sask Sport Distributors Inc. to cover the distributor payments made to those volunteer non-profit organizations that previously acted as ticket distributors. This amounted to $1,441,451 (2014 - $1,442,320) during the current year. Of this amount, Sask Sport Inc., as a former ticket distributor, received $358,560 (2014 - $358,560) during the current year.
- the General Revenue Fund of the Province of Saskatchewan in the amount of 3.75% of net lottery ticket sales (2014 - 3.75% of net lottery ticket sales). During the current year $6,917,015 (2014 - $7,540,442) was expensed.
- the Saskatchewan Association of Agricultural Societies and Exhibition Associations in the amount of $310,000 (2014 - $310,000) for the current year.

6. **Related party transactions:**

These financial statements include transactions with related parties. The Trust is related to all Saskatchewan Crown agencies such as ministries, corporations, boards and commissions under the common control of the Government of Saskatchewan. Also, the Trust is related to non-Crown enterprises that the Government jointly controls.

These transactions are in the normal course of operations and are recorded at the exchange amount which is the amount of consideration established and agreed to by the related parties. Other related party transactions and amounts due to/from are disclosed separately in these financial statements.

Sask Sport Inc., as a sport federation, received grants from the Trust of $4,315,299 (2014 - $4,042,824) during the current year, to provide programs and services to its member sport organizations. Sask Sport Inc. also received $10,471 (2014 - $9,702) as a fee for providing office equipment for use during the current year. Administrative expenses include direct expenses of the Trust as well as expenses allocated from Sask Sport Inc. based on Sask Sport Inc. resources used in the management and administration of the Trust.

6. Related party transactions (continued):

The Administration Centers for Sport, Culture and Recreation (1989) Inc., a wholly owned subsidiary of Sask Sport Inc., provides office space and administrative services for non-profit sport, culture and recreation associations and received a grant from the Trust of $620,680 (2014 - $602,550) during the current year. In addition, the Trust paid to the Administration Centers for Sport, Culture and Recreation (1989) Inc. $51,980 (2014 - $50,174) for office space and services.

7. Financial instruments and risks:

Fair value:

The recorded value of receivables and payables are measured at amortized cost, which approximates their fair value. All equity and pooled fund investments recorded at fair value are measured using inputs from one of three levels. Level 1 inputs are quoted prices readily available from an active market. Level 2 inputs are quoted prices included within Level 1 that are observable either directly or indirectly. Level 3 inputs are fair values not obtained from market data. The Trust fund measures pooled funds based on level 2 inputs. The Trust fund measures bank shares based on level 1 inputs.

Credit and interest rate risk:

The Trust is not subject to significant credit risk. The Trust may be subject to significant interest rate risk relative to certain investments described in Note 3. To mitigate the effects of interest rate changes the Trust applies investing policies that address portfolio mix, maturities, and liquidity.

Liquidity risk:

The Trust is not subject to significant liquidity risk as its primary receivable is with Western Canada Lottery – Saskatchewan Division Inc. which is well capitalized and has a history of transferring funds in a timely manner. The Trust invests funds based on the timing of its grant obligations and continuously monitors this to ensure these obligations can be met. Its short term investments are highly liquid.

Price risk:

The Trust is subject to price risk through its investment in publicly traded securities and pooled funds. These instruments comprise 17% of the investment portfolio and are subject to price changes in the open market. The Trust does not use any derivative financial instruments to alter the effects of this risk.

8. Budget:

The budget is the original budget that was approved by the Board of Sask Sport Inc. on February 4, 2014.

9. Statement of Changes in Net Assets:

A Statement of Changes in Net Assets has not been prepared as the information is readily apparent from the other financial statements.

Saskatchewan Lotteries Trust Fund For Sport, Culture and Recreation

Schedule 1 - Restricted Trust Fund Balances

Year ended March 31, 2015 with comparative figures for 2014

	Restricted trust fund balances, beginning of year	Allocation of funds available to provide grants	Grants approved - net of returns	Increase/ (decrease) in funds	Restricted trust fund balances, end of year
Community Development	$ 246,000	$ 3,665,000	$ (2,242,940)	$ 1,422,060	$ 1,668,060
Community Grant	2,044,395	6,162,000	(6,106,589)	55,411	2,099,806
Culture	4,824,842	13,756,065	(14,733,915)	(977,850)	3,846,992
Recreation	3,148,350	5,267,171	(5,632,380)	(365,209)	2,783,141
Sport	11,477,494	19,756,236	(20,792,337)	(1,036,101)	10,441,393
Total 2015	$ 21,741,081	$ 48,606,472	$ (49,508,161)	$ (901,689)	$ 20,839,392
Total 2014	$ 23,710,053	$ 51,977,840	$ (53,946,812)	$ (1,968,972)	$ 21,741,081

Schedule 2 - Net Lottery Profits

Year ended March 31, 2015 with comparative figures for 2014

	Original Budget 2015 (note 8)	2015	2014
Lottery ticket sales	$ 200,000,000	$ 184,453,726	$ 201,078,474
Revenue and expense items paid by the Western Canada Lottery Corporation:			
Prizes	(104,350,000)	(95,116,121)	(105,298,551)
Administration and ticket printing	(20,272,600)	(17,197,061)	(17,920,341)
Retailer commissions	(11,708,000)	(10,426,356)	(11,545,885)
Federal and provincial taxes	(1,522,100)	(1,326,668)	(1,444,831)
Investment income	156,900	236,289	366,185
Lottery profits transferred from the Western Canada Lottery Corporation	62,304,200	60,623,809	65,235,051
Provincial interest and other income	237,500	240,075	219,410
Provincial distribution expenses (note 1)	(2,580,860)	(2,345,548)	(2,188,970)
Provincial marketing expenses (note 1)	(1,668,590)	(1,315,490)	(1,428,267)
Net lottery profits	$ 58,292,250	$ 57,202,846	$ 61,837,224

See accompanying notes to financial statements.

Saskatchewan Lotteries Trust Fund For Sport, Culture and Recreation

Schedule 3 - Administration Expenses

Year ended March 31, 2015 with comparative figures for 2014

	Original Budget 2015 (note 8)	2015	2014
Salaries and benefits	$ 674,640	$ 699,614	$ 665,151
Rent	35,200	35,210	34,127
Office supplies	20,750	20,040	21,230
Professional fees	27,850	19,603	16,487
Committee meetings	9,400	4,963	15,168
Equipment expense	10,750	10,472	9,702
Printing	7,500	6,722	7,201
Telephone	7,100	6,700	6,599
Insurance	5,800	5,721	5,455
Postage	5,500	6,341	5,024
Travel and training	10,600	3,345	3,576
Goods and services tax	3,400	3,133	3,193
Repairs and maintenance	2,500	2,078	1,721
Total administration expenses	$ 820,990	$ 823,942	$ 794,634

See accompanying notes to financial statements.